

*** About this document**

As announced, IJ adopted International Financial Reporting Standards (IFRS) from the filing of its annual securities report for the fiscal year ended March 31, 2019, which we submitted to the Director-General, Kanto Local Finance Bureau on June 28, 2019. This document is a voluntary disclosure that provides selected financial information prepared under IFRS for the fiscal year ended March 31, 2019. Please note that IJ had disclosed consolidated financial results for the fiscal year ended March 31, 2019 under the U.S. GAAP, which is IJ's previous adopted accounting principles, on May 14, 2019.

Earnings release for the Fiscal Year Ended March 31, 2019 [Under IFRS]

June 28, 2019

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

URL: <https://www.ij.ad.jp/>

Representative: Eijiro Katsu, President and Representative Director

Contact: Akihisa Watai, Managing Director and CFO

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(Amounts of less than JPY one million are rounded)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2019

(April 1, 2018 to March 31, 2019)

(1) Consolidated Results of Operations

(% shown is YoY change)

| | Revenues | | Operating profit | | Profit (loss) before tax | | Profit (loss) for the year | | Profit (loss) for the year attributable to owners of the parent | | Other comprehensive income for the year | |
|----------------------------------|--------------|-----|------------------|--------|--------------------------|--------|----------------------------|--------|---|--------|---|--------|
| | JPY millions | % | JPY millions | % | JPY millions | % | JPY millions | % | JPY millions | % | JPY millions | % |
| Fiscal year ended March 31, 2019 | 192,430 | 9.2 | 6,023 | (11.0) | 5,843 | (15.0) | 3,699 | (19.5) | 3,521 | (20.4) | 3,081 | (60.6) |
| Fiscal year ended March 31, 2018 | 176,233 | — | 6,770 | — | 6,872 | — | 4,593 | — | 4,423 | — | 7,818 | — |

| | Basic earnings per share | Diluted earnings per share | Rate of return on equity | Ratio of profit before taxes to total assets | Ratio of operating profit to revenues |
|----------------------------------|--------------------------|----------------------------|--------------------------|--|---------------------------------------|
| | JPY | JPY | % | % | % |
| Fiscal year ended March 31, 2019 | 78.11 | 77.80 | 4.7 | 3.6 | 3.1 |
| Fiscal year ended March 31, 2018 | 98.15 | 97.82 | 6.2 | 4.7 | 3.8 |

(Reference) Equity in net income (loss) of equity method investees

Fiscal year ended March 31, 2019: JPY(318) million

Fiscal year ended March 31, 2018: JPY135 million

(2) Consolidated Financial Position

| | Total assets | Total equity | Total equity attributable to owners of the parent | Ratio of owners' equity to gross assets | Owners' equity per share |
|----------------------|--------------|--------------|---|---|--------------------------|
| | JPY millions | JPY millions | JPY millions | % | JPY |
| As of March 31, 2019 | 167,289 | 77,120 | 76,271 | 45.6 | 1,692.27 |
| As of March 31, 2018 | 155,163 | 75,247 | 74,529 | 48.0 | 1,653.88 |

(3) Consolidated Cash Flow

| | Operating activities | Investing activities | Financing activities | Cash and cash equivalents (end of the period) |
|----------------------------------|----------------------|----------------------|----------------------|---|
| | JPY millions | JPY millions | JPY millions | JPY millions |
| Fiscal year ended March 31, 2019 | 25,152 | (8,688) | (5,890) | 31,958 |
| Fiscal year ended March 31, 2018 | 14,664 | (14,297) | (718) | 21,320 |

2. Dividends

| | Dividend per Shares | | | | | Total cash dividends for the year | Payout Ratio (consolidated) | Ratio of Dividends to Shareholder's Equity (consolidated) |
|--|---------------------|--------|--------|----------|-------|-----------------------------------|-----------------------------|---|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total | | | |
| | JPY | JPY | JPY | JPY | JPY | JPY millions | % | % |
| Fiscal Year Ended March 31, 2018 | — | 13.50 | — | 13.50 | 27.00 | 1,217 | 27.5 | 1.7 |
| Fiscal Year Ended March 31, 2019 | — | 13.50 | — | 13.50 | 27.00 | 1,217 | 34.6 | 1.6 |
| Fiscal Year Ending March 31, 2020 (forecast) | — | 13.50 | — | 13.50 | 27.00 | | 34.8 | |

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 through March 31, 2020)

(% shown is YoY change)

| | Revenues | | Operating profit | | Profit (loss) before tax | | Profit (loss) for the year attributable to owners of the parent | | Basic earnings per share |
|--|--------------|-----|------------------|--------|--------------------------|--------|---|--------|--------------------------|
| | JPY millions | % | JPY millions | % | JPY millions | % | JPY millions | % | JPY |
| Interim Period Ending September 30, 2019 | 97,700 | 7.1 | 2,200 | (33.0) | 1,500 | (56.3) | 550 | (73.7) | 12.20 |
| Fiscal Year Ending March 31, 2020 | 204,000 | 6.0 | 7,000 | 16.2 | 6,300 | 7.8 | 3,500 | (0.6) | 77.66 |

(Note 1) The above “Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020” are the same we disclosed on May 14, 2019 in our “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 [Under accounting principles generally accepted in the United States].” Year over year change (%) have been re-calculated based on IFRS.

(Note 2) As for the details about our financial targets for the fiscal year ending March 31, 2020, please refer to page 9 of our “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 [Under accounting principles generally accepted in the United States]” which was disclosed on May 14, 2019.

* Status of Audit Procedures

This document is not subject to audit procedures by certified public accountant or independent auditor. At the time of release of this document, audit procedures for consolidated financial statements under the Financial Instruments and Exchange Law have been completed.

* Explanation on the Appropriate Use of Future Outlook and other special instructions

Forward-looking statements disclosed in this document are based on IIJ Group’s expectation, estimates, and projections based on information available to IIJ Group as of May 14, 2019. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends

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2. IFRS Transition Disclosure

1. Consolidated financial statements

(1) Consolidated statements of financial position

| | Date of transition April 1, 2017 | March 31, 2018 | March 31, 2019 |
|--|-------------------------------------|--------------------|--------------------|
| | Thousands of yen | Thousands of yen | Thousands of yen |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 21,747,209 | 21,320,004 | 31,957,789 |
| Trade receivables | 27,258,636 | 31,569,389 | 33,375,808 |
| Inventories | 2,706,825 | 1,544,869 | 3,403,192 |
| Prepaid expenses | 6,979,191 | 7,595,216 | 8,522,554 |
| Other financial assets | 2,554,960 | 3,758,636 | 1,581,212 |
| Other current assets | 96,508 | 55,074 | 130,900 |
| Total Current Assets | 61,343,329 | 65,843,188 | 78,971,455 |
| Non-current Assets | | | |
| Tangible assets | 28,666,071 | 33,524,196 | 33,136,059 |
| Goodwill | 6,169,609 | 6,082,472 | 6,082,472 |
| Intangible assets | 15,891,361 | 17,762,896 | 18,818,707 |
| Investments accounted for using the equity method | 3,150,175 | 5,246,313 | 4,837,867 |
| Prepaid expenses | 6,464,325 | 7,687,980 | 8,037,298 |
| Other investments | 9,522,757 | 12,884,390 | 11,402,365 |
| Other financial assets | 4,875,944 | 4,857,197 | 5,293,547 |
| Other non-current assets | 1,664,322 | 1,112,520 | 532,839 |
| Deferred tax assets | 209,789 | 161,577 | 176,587 |
| Total non-current assets | 76,614,353 | 89,319,541 | 88,317,741 |
| Total assets | 137,957,682 | 155,162,729 | 167,289,196 |

| | Date of transition April 1, 2017 | March 31, 2018 | March 31, 2019 |
|--|-------------------------------------|--------------------|--------------------|
| Liabilities and Equity | Thousands of yen | Thousands of yen | Thousands of yen |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 17,096,434 | 16,530,712 | 21,962,239 |
| Borrowings | 9,250,000 | 9,250,000 | 12,750,000 |
| Deferred income | 3,731,048 | 4,155,957 | 5,461,813 |
| Other financial liabilities | 4,985,663 | 5,965,285 | 7,031,690 |
| Income taxes payable | 868,420 | 1,792,834 | 1,139,460 |
| Other current liabilities | 3,906,106 | 4,442,485 | 4,559,005 |
| Total current liabilities | 39,837,671 | 42,137,273 | 52,904,207 |
| Non-current liabilities | | | |
| Borrowings | 8,500,000 | 15,500,000 | 14,000,000 |
| Other financial liabilities | 11,858,443 | 11,828,565 | 12,151,346 |
| Retirement benefit liabilities | 3,532,965 | 3,724,634 | 3,488,501 |
| Provisions | 659,243 | 710,680 | 731,257 |
| Deferred income | 3,445,948 | 3,748,701 | 5,518,492 |
| Other non-current liabilities | 865,124 | 914,637 | 954,387 |
| Deferred tax liabilities | 583,487 | 1,351,007 | 421,396 |
| Total non-current liabilities | 29,445,210 | 37,778,224 | 37,265,379 |
| Total liabilities | 69,282,881 | 79,915,497 | 90,169,586 |
| Equity | | | |
| Share capital | 25,509,499 | 25,511,804 | 25,518,712 |
| Share premium | 36,117,510 | 36,175,936 | 36,225,775 |
| Retained earnings | 5,745,897 | 9,678,821 | 12,335,035 |
| Other components of equity | 2,560,350 | 5,058,955 | 4,088,704 |
| Treasury shares | (1,896,784) | (1,896,784) | (1,896,788) |
| Total equity attributable to owners of the parent | 68,036,472 | 74,528,732 | 76,271,438 |
| Non-controlling interests | 638,329 | 718,500 | 848,172 |
| Total equity | 68,674,801 | 75,247,232 | 77,119,610 |
| Total liabilities and equity | 137,957,682 | 155,162,729 | 167,289,196 |

(2) Consolidated statements of profit or loss and Consolidated statements of comprehensive income
(Consolidated statements of profit or loss)

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| | Thousands of yen | Thousands of yen |
| Revenues | | |
| Network services | 108,083,658 | 118,626,271 |
| System integration | 64,118,979 | 69,652,389 |
| ATM operation business | 4,030,684 | 4,151,525 |
| Total revenues | 176,233,321 | 192,430,185 |
| Cost of sales | | |
| Cost of network services | (88,557,484) | (101,257,454) |
| Cost of systems integration | (56,941,689) | (59,871,900) |
| Cost of ATM operation business | (2,365,403) | (2,326,133) |
| Total cost of sales | (147,864,576) | (163,455,487) |
| Gross Profit | 28,368,745 | 28,974,698 |
| Selling, general and administrative expense | (21,473,500) | (22,652,036) |
| Other operating income | 61,385 | 47,008 |
| Other operating expenses | (187,013) | (346,683) |
| Operating Profit | 6,769,617 | 6,022,987 |
| Finance income | 407,258 | 570,004 |
| Finance expenses | (439,335) | (431,763) |
| Share of profit (loss) of investments accounted for using equity method | 134,656 | (318,244) |
| Profit (loss) before tax | 6,872,196 | 5,842,984 |
| Income tax expense | (2,279,282) | (2,144,196) |
| Profit (loss) for the year | 4,592,914 | 3,698,788 |
| Profit (loss) for the year attributable to: | | |
| Owners of the parent | 4,422,923 | 3,520,566 |
| Non-controlling interests | 169,991 | 178,222 |
| Total | 4,592,914 | 3,698,788 |
| Earnings per share | | |
| Basic earnings per share (yen) | 98.15 | 78.11 |
| Diluted earnings per share (yen) | 97.82 | 77.80 |

(Consolidated statements of comprehensive income)

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| | Thousands of yen | Thousands of yen |
| Profit (loss) for the year | 4,592,914 | 3,698,788 |
| Other comprehensive income-net of tax | | |
| Items that will not be reclassified to profit or loss | | |
| Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income | 3,203,237 | (1,001,192) |
| Remeasurement of defined benefit plans | 80,428 | 350,139 |
| Total items that will not be reclassified to profit or loss | 3,283,665 | (651,053) |
| Items that may be reclassified to profit or loss | | |
| Exchange differences on translation of foreign operations | (65,856) | 47,377 |
| Financial assets measured at fair value through other comprehensive income | 918 | 1,260 |
| Share of other comprehensive income of investments accounted for using equity method | 6,493 | (15,386) |
| Total of items that may be reclassified to profit or loss | (58,445) | 33,251 |
| Total other comprehensive income, net of tax | 3,225,220 | (617,802) |
| Other comprehensive income for the year | 7,818,134 | 3,080,986 |
| Other comprehensive income for the year attributable to: | | |
| Owners of the parent | 7,684,143 | 2,902,764 |
| Non-controlling interest | 169,991 | 178,222 |
| Other comprehensive income for the year | 7,818,134 | 3,080,986 |

(3) Consolidated statements of changes in shareholders' equity
For the year ended March 31, 2018

| | Owners of the parent's shareholders' equity | | | | | | Non-controlling interests | Total equity |
|---|---|------------------|-------------------|----------------------------|------------------|------------------|---------------------------|--------------|
| | Share capital | Share premium | Retained earnings | Other components of equity | Treasury shares | Total | | |
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Balance, April 1, 2017 | 25,509,499 | 36,117,510 | 5,745,897 | 2,560,350 | (1,896,784) | 68,036,472 | 638,329 | 68,674,801 |
| Comprehensive income | | | | | | | | |
| Profit for the year | — | — | 4,422,923 | — | — | 4,422,923 | 169,991 | 4,592,914 |
| Other comprehensive income | — | — | — | 3,225,220 | — | 3,225,220 | — | 3,225,220 |
| Total comprehensive income | — | — | 4,422,923 | 3,225,220 | — | 7,648,143 | 169,991 | 7,818,134 |
| Transactions with owners | | | | | | | | |
| Issuance of common stock | 2,305 | (2,303) | — | — | — | 2 | — | 2 |
| Dividends paid | — | — | (1,216,666) | — | — | (1,216,666) | (46,800) | (1,263,466) |
| Stock-based compensation | — | 57,321 | — | — | — | 57,321 | — | 57,321 |
| Transfer from other components of equity to retained earnings | — | — | 726,615 | (726,615) | — | — | — | — |
| Other changes | — | — | 52 | — | — | 52 | — | 52 |
| Total transactions with owners | 2,305 | 55,018 | (489,999) | (726,615) | — | (1,159,291) | (46,800) | (1,206,091) |
| Changes in the interests of subsidiaries | | | | | | | | |
| Equity transactions with non-controlling interests | — | 3,408 | — | — | — | 3,408 | (43,020) | (39,612) |
| Total changes in the interests of subsidiaries | — | 3,408 | — | — | — | 3,408 | (43,020) | (39,612) |
| Balance, March 31, 2018 | 25,511,804 | 36,175,936 | 9,678,821 | 5,058,955 | (1,896,784) | 74,528,732 | 718,500 | 75,247,232 |

For the year ended March 31, 2019

| | Owners of the parent's shareholders' equity | | | | | | Non-controlling interests | Total equity |
|---|---|------------------|-------------------|----------------------------|------------------|------------------|---------------------------|--------------|
| | Share capital | Share premium | Retained earnings | Other components of equity | Treasury shares | Total | | |
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Balance, April 1, 2018 | 25,511,804 | 36,175,936 | 9,678,821 | 5,058,955 | (1,896,784) | 74,528,732 | 718,500 | 75,247,232 |
| Comprehensive income | | | | | | | | |
| Profit for the year | — | — | 3,520,566 | — | — | 3,520,566 | 178,222 | 3,698,788 |
| Other comprehensive income | — | — | — | (617,802) | — | (617,802) | — | (617,802) |
| Total comprehensive income | — | — | 3,520,566 | (617,802) | — | 2,902,764 | 178,222 | 3,080,986 |
| Transactions with owners | | | | | | | | |
| Issuance of common stock | 6,908 | (6,901) | — | — | — | 7 | — | 7 |
| Purchase of treasury stock | — | — | — | — | (4) | (4) | — | (4) |
| Dividends paid | — | — | (1,216,801) | — | — | (1,216,801) | (48,550) | (1,265,351) |
| Stock-based compensation | — | 56,740 | — | — | — | 56,740 | — | 56,740 |
| Transfer from other components of equity to retained earnings | — | — | 352,449 | (352,449) | — | — | — | — |
| Other changes | — | — | — | — | — | — | — | — |
| Total transactions with owners | 6,908 | 49,839 | (864,352) | (352,449) | (4) | (1,160,058) | (48,550) | (1,208,608) |
| Balance, March 31, 2019 | 25,518,712 | 36,225,775 | 12,335,035 | 4,088,704 | (1,896,788) | 76,271,438 | 848,172 | 77,119,610 |

(4) Consolidated statements of cash flows

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|---|--------------------------------------|--------------------------------------|
| | Thousands of yen | Thousands of yen |
| Cash flows from operating activities: | | |
| Profit (loss) before tax | 6,872,196 | 5,842,984 |
| Adjustments | | |
| Depreciation and amortization | 13,412,489 | 15,628,567 |
| Loss on sales of property and equipment | 101,976 | 303,072 |
| Shares of loss (profit) of investments accounted for using the equity method | (134,656) | 318,244 |
| Finance income | (262,596) | (569,387) |
| Finance expenses | 405,132 | 430,176 |
| Other | (37,687) | 21,166 |
| Changes in working capital | | |
| Decrease (increase) in trade receivables | (4,612,748) | (1,758,343) |
| Decrease (increase) in inventories | 1,158,554 | (1,857,488) |
| Decrease (increase) in prepaid expenses | (1,852,635) | (1,275,117) |
| Decrease (increase) in other assets | 654,322 | 557,337 |
| Decrease (increase) in other financial assets | (1,027,394) | 2,333,483 |
| Increase (decrease) in trade and other payables | 280,492 | 5,499,957 |
| Increase (decrease) in deferred income | 766,520 | 2,883,178 |
| Increase (decrease) in other liabilities | 584,951 | 156,096 |
| Increase (decrease) in other financial liabilities | 125,564 | 29,211 |
| Increase (decrease) in retirement benefit liabilities | 309,082 | 275,019 |
| Sub total | 16,743,562 | 28,818,155 |
| Interest and dividends received | 324,670 | 182,714 |
| Interest paid | (402,031) | (427,199) |
| Income taxes paid | (2,002,382) | (3,420,784) |
| Cash flows from operating activities | 14,663,819 | 25,152,346 |

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| | Thousands of yen | Thousands of yen |
| Cash flows from investing activities | | |
| Purchases of tangible assets | (11,092,490) | (7,080,371) |
| Proceeds from sales of tangible assets | 3,271,032 | 3,070,798 |
| Purchases of intangible assets | (6,120,793) | (5,400,380) |
| Proceeds from sales of intangible assets | 36,406 | 1,579 |
| Proceeds from sale of subsidiaries | 726,081 | — |
| Purchase of investments accounted for using equity method | (2,004,808) | — |
| Purchases of other investments | (104,940) | (44,013) |
| Proceeds from sales of other investments | 1,364,411 | 565,477 |
| Payments for leasehold deposits and guarantee deposits | (378,883) | (20,848) |
| Proceeds from collection of leasehold deposits and guarantee deposits | 24,296 | 56,224 |
| Proceeds from subsidies | 48,976 | 230,000 |
| Payments for refundable insurance policies | (56,362) | (56,355) |
| Other | (9,715) | (9,700) |
| Cash flows from investing activities | (14,296,789) | (8,687,589) |
| Cash flows from financing activities | | |
| Proceeds from long-term borrowings | 7,000,000 | — |
| Net increase (decrease) in short-term borrowings | (150,000) | 2,000,000 |
| Proceeds from other financial liabilities | — | 697,863 |
| Payments of other financial liabilities | (6,264,436) | (7,322,252) |
| Dividends paid | (1,216,666) | (1,216,801) |
| Other | (86,410) | (48,560) |
| Cash flows from financing activities | (717,512) | (5,889,750) |
| Effect of exchange rate changes on cash and cash equivalents | (76,723) | 62,778 |
| Net increase (decrease) in cash and cash equivalents | (427,205) | 10,637,785 |
| Cash and cash equivalents, beginning of year | 21,747,209 | 21,320,004 |
| Cash and cash equivalents, end of year | 21,320,004 | 31,957,789 |

(5) Notes to consolidated financial statements

Note 1. Business segments

Internet Initiative Japan Inc. (“IIJ”) and its subsidiaries (collectively “the Company”) primarily operates its network service and system integration business, which provides a comprehensive range of network solutions to meet its customers’ needs by cross-selling a variety of services, including Internet connectivity services, WAN services, outsourcing services, systems integration and sales of network-related equipment, and the ATM operation business. Therefore, the Company defined two reportable segments: “Network service and systems integration business” and “ATM operation business.”

Profit from each reporting segment is based on operating profit.

Segment information for the Company is as follows:

For the year ended March 31, 2018

| | Reportable segments | | Adjustments (Note 1) | Consolidated Statements of Profit or Loss |
|--|--|---------------------------|-------------------------|---|
| | Network service and systems integration business | ATM operation business | | |
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen |
| Revenue | | | | |
| Customers | 172,202,637 | 4,030,684 | — | 176,233,321 |
| Intersegment transactions | 350,155 | — | (350,155) | — |
| Total revenue | <u>172,552,792</u> | <u>4,030,684</u> | <u>(350,155)</u> | <u>176,233,321</u> |
| Segment operating profit | <u>5,437,563</u> | <u>1,510,176</u> | <u>(178,122)</u> | <u>6,769,617</u> |
| Finance income | | | | 407,258 |
| Finance expense | | | | (439,335) |
| Share of profit (loss) of investments accounted for using the equity method | | | | <u>134,656</u> |
| Profit before taxes | | | | <u>6,827,196</u> |
| Segment assets | 151,943,508 | 5,219,221 | (2,000,000) | 155,162,729 |
| Other | | | | |
| Depreciation and amortization | 12,948,110 | 464,379 | — | 13,412,489 |

For the year ended March 31, 2019

| | Reportable segments | | | Consolidated Statements of Profit or Loss |
|--|--|---------------------------|-------------------------|---|
| | Network service and systems integration business | ATM operation business | Adjustments (Note 1) | |
| | Thousands of yen | Thousands of yen | Thousands of yen | |
| Revenue | | | | |
| Customers | 188,278,660 | 4,151,525 | — | 192,430,185 |
| Intersegment transactions | 354,990 | — | (354,990) | — |
| Total revenue | 188,633,650 | 4,151,525 | (354,990) | 192,430,185 |
| Segment operating profit | 4,599,187 | 1,622,517 | (198,717) | 6,022,987 |
| Finance income | | | | 570,004 |
| Finance expense | | | | (431,763) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (318,244) |
| Profit before tax | | | | 5,842,984 |
| Segment assets | 163,699,221 | 5,589,975 | (2,000,000) | 167,289,196 |
| Other | | | | |
| Depreciation and amortization | 15,190,721 | 437,846 | — | 15,628,567 |

Intersegment transactions are based on market price. Segment operating profit is the amount of revenue less cost of sales and SG&A expenses plus other operating income and less other operating expenses.

Substantially all revenues are from customers operating in Japan. Geographic information for revenues is not presented due to immateriality of revenue attributable to international operations.

Substantially all non-current assets, excluding financial instruments and deferred tax assets, are located in Japan. Geographic information of non-current assets is not presented due to immateriality of non-current assets attributable to assets located outside Japan.

This information is not presented because no revenue from a single external customer accounts for 10% or more of total revenue of the Company.

Note 2. Earnings per share

Basic earnings per share attributable to owners of the parent and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2018 and 2019 were as follows:

| | For the year ended March 31, 2018 | For the year ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| Numerator : | | |
| Basic earnings attributable to owners of the parent (thousands of yen) | 4,422,923 | 3,520,566 |
| Denominator : | | |
| Weighted average number of shares — basic (shares) | 45,062,878 | 45,070,469 |
| Dilution arising from stock options (shares) | 152,808 | 178,915 |
| Weighted average number of shares — diluted (shares) | 45,215,686 | 45,249,384 |
| Earnings per share attributable to owners of the parent | | |
| Basic (yen) | 98.15 | 78.11 |
| Diluted (yen) | 97.82 | 77.80 |

Note 3. Significant subsequent events

Not applicable.

2. IFRS Transition Disclosure

The Company's consolidated financial statements are disclosed in accordance with IFRS from the year ended March 31, 2019. The most recent consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP") are for the fiscal year ended March 31, 2018 and the date of transition to IFRS was April 1, 2017.

(1) Exemptions for first-time adoption based on IFRS 1

IFRS principally requires an entity that adopts IFRS for the first time to apply IFRS retrospectively. However, IFRS 1 provides exemptions that allow first-time adopters to voluntarily not to apply certain standards retrospectively. Major exemptions adopted by the Company are as follows:

Business combinations

A first-time adopter may choose not to apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to business combinations occurring before the date of transition to IFRS. The Company has applied this exemption and chosen not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS. As a result, the amounts of goodwill from business combinations before the date of transition were recorded at the carrying amount under USGAAP as of the date of transition. Impairment tests on goodwill, whether there is an indication of impairment or not, are conducted as of the date of transition.

Exchange differences on translation of foreign operations

The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

Specification of financial assets recognized before the date of transition

The Company determined the category of financial assets in accordance with IFRS 9 "Financial instruments," in considering facts and circumstances which existed at the date of transition.

(2) Reconciliation of USGAAP to IFRS

Reconciliation tables required in first-time adoption of IFRS are as follows. "Reclassification" represents adjustments which do not affect retained earnings and comprehensive income and "Recognition and measurement differences" includes adjustments which affect retained earnings and comprehensive income.

Reconciliation of equity as of April 1, 2017, the date of transition to IFRS

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--|--------------------|--------------------|---|--------------------|------|---|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Current assets | | | | | | Current assets |
| Cash and cash equivalents | 21,958,591 | — | (211,382) | 21,747,209 | | Cash and cash equivalents |
| Accounts receivable | 27,383,692 | (15,192) | (109,864) | 27,258,636 | | Trade receivables |
| Inventories | 2,798,054 | 32,845 | (124,074) | 2,706,825 | | Inventories |
| Prepaid expenses | 7,610,925 | (693,037) | 61,303 | 6,979,191 | 6 | Prepaid expenses |
| Deferred tax assets—current | 1,298,469 | (1,298,469) | — | — | | |
| Other current assets | 2,672,008 | (2,521,149) | (54,351) | 96,508 | | Other current assets |
| | — | 2,536,341 | 18,619 | 2,554,960 | 10 | Other financial assets |
| Total current assets | 63,721,739 | (1,958,661) | (419,749) | 61,343,329 | | Total current assets |
| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
| Non-current assets | | | | | | |
| Investments in equity method investees | 3,150,175 | — | — | 3,150,175 | | Investments accounted for using the equity method |
| Other investment | 7,924,914 | 97,646 | 1,500,197 | 9,522,757 | 1 | Other investments |
| Property and equipment – net | 39,775,444 | (11,361,154) | 251,781 | 28,666,071 | | Tangible assets |
| Goodwill | 6,169,609 | — | — | 6,169,609 | | Goodwill |
| Other intangible assets-net | 3,087,017 | 12,551,492 | 252,852 | 15,891,361 | 10 | Intangible assets |
| Guarantee deposits | 3,060,365 | (3,060,365) | — | — | | |
| Deferred tax assets | 80,566 | 471,308 | (342,085) | 209,789 | 4 | Deferred tax assets |
| Net investment in sales-type leases | 2,047,682 | (2,047,682) | — | — | | Other non-current asset |
| Prepaid expense | 6,607,437 | (497,301) | 354,189 | 6,464,325 | 6 | Prepaid expenses |
| Other assets | 1,770,201 | (105,879) | — | 1,664,322 | | Other non-current asset |
| | — | 5,116,280 | (240,336) | 4,875,944 | 10 | Other financial asset |
| Total non-current assets | 73,673,410 | 1,164,345 | 1,776,598 | 76,614,353 | | Total non-current assets |
| Total assets | 137,395,149 | (794,316) | 1,356,849 | 137,957,682 | | Total assets |

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--|------------------|------------------|---|------------------|------|--------------------------------|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Current liabilities | | | | | | Current liabilities |
| Short-term borrowings | 9,250,000 | — | — | 9,250,000 | | Borrowings |
| Capital lease obligations | 4,818,723 | (4,818,723) | — | — | | |
| Accounts payable—trade | 14,653,065 | 2,338,210 | 105,159 | 17,096,434 | | Trade and other payables |
| Accounts payable—other | 2,308,790 | (2,308,790) | — | — | | |
| Income tax payable | 1,075,745 | (204,396) | (2,929) | 868,420 | | Income taxes payable |
| Accrued expenses | 2,755,581 | (2,755,581) | — | — | | |
| Deferred income | 3,750,542 | 140,620 | (160,114) | 3,731,048 | 5 | Deferred income |
| Other current liabilities | 1,370,661 | 2,514,774 | 20,671 | 3,909,106 | | Other current liabilities |
| | — | 5,017,737 | (32,074) | 4,985,663 | 10 | Other financial liabilities |
| Total current liabilities | 39,983,107 | (76,149) | (69,287) | 39,837,671 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Long-term borrowings | 8,500,000 | — | — | 8,500,000 | | Borrowings |
| Capital lease obligation — non-current | 10,384,643 | (10,384,643) | — | — | | |
| Accrued retirement and pension costs | 3,532,965 | — | — | 3,532,965 | 2 | Retirement benefit liabilities |
| Deferred tax liabilities—non-current | 963,845 | (718,167) | 337,809 | 583,487 | 4 | Deferred tax liabilities |
| Deferred income—non-current | 3,656,612 | — | (210,664) | 3,445,948 | 5 | Deferred income |
| Other non-current liabilities | 2,993,777 | (2,154,098) | 25,445 | 865,124 | | Other non-current liabilities |
| | — | 11,918,902 | (60,459) | 11,858,443 | 10 | Other financial liabilities |
| | — | 619,839 | 39,404 | 659,243 | | Provisions |
| Total non-current liabilities | 30,031,842 | (718,167) | 131,535 | 29,445,210 | | Total non-current liabilities |
| Total liabilities | 70,014,949 | (794,316) | 62,248 | 69,282,881 | | Total liabilities |
| Equity | | | | | | Equity |
| Common stock | 25,509,499 | — | — | 25,509,499 | | Share capital |
| Additional paid-in capital | 36,117,511 | — | (1) | 36,117,510 | | Share premium |
| Retained earnings | 4,511,945 | — | 1,233,952 | 5,745,897 | 9 | Retained earnings |
| Accumulated other comprehensive income | 2,499,700 | — | 60,650 | 2,560,350 | 7,8 | Other component of equity |
| Treasury stock | (1,896,784) | — | — | (1,896,784) | | Treasury shares |
| Noncontrolling interest | 638,329 | — | — | 638,329 | | Non-controlling interest |
| Total equity | 67,380,200 | — | 1,294,601 | 68,674,801 | | Total equity |
| Total liabilities and equity | 137,395,149 | (794,316) | 1,356,849 | 137,957,682 | | Total liabilities and equity |

Notes to reconciliation of equity as of April 1, 2017, the date of transition to IFRS

Major adjustments as of the date of transition are as follows:

1) Fair value measurement of financial assets

Under the USGAAP, nonmarketable equity securities and certain financial assets are measured based on cost and impairment losses and are recognized when an issuer's financial position deteriorates. Under IFRS, these investments are measured at FVTOCI or FVTPL.

2) Post-employment benefits

Under the USGAAP, a part of the incurred amount of actuarial gain or loss and past service costs arising from defined benefit plans and unfunded severance benefit plans that are not recognized as periodic pension costs during the year is recognized as accumulated other comprehensive income (loss), net of tax. The amount recognized in accumulated other comprehensive income (loss) will be transferred to a component of pension costs in profit or loss over a certain future period.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income on a net-of-tax basis, and past service cost is recognized in net income or loss when incurred. Actuarial gain or loss is directly transferred from other components of equity to retained earnings immediately, and is not recognized as profit or loss.

3) Levies

Under the USGAAP, domestic property taxes are accounted over the fiscal year of payment. Under IFRS, liabilities and expenses are immediately recognized at the point of the event when the liabilities are incurred.

4) Deferred tax assets and liabilities

In relation to changes in temporary differences arising from adjustments of accounts in transition to IFRS, the Company recognized changes in related deferred tax assets or liabilities.

5) Revenues from the contract with the customers

Initial setup fee received from the network services were deferred over the estimated periods of use under USGAAP. According to the adaption of IFRS, the initial setup fee, which does not give the material right related to the decision as to whether the service should be continued over the initial contract period or not to the customers, are deferred over the minimum periods of use.

6) Capitalization of contract costs

The Company's existing approach is to recognize sales commissions to agents of mobile telecommunications services contracts as expenses when incurred. As a result of applying IFRS 15, the Company will capitalize the sales commissions that would not have been incurred if the mobile telecommunications service contract had not been obtained and that are expected to be recovered, as the costs to obtain a contract.

7) Exchange differences on translation of foreign operations

Under IFRS 1, as described in (1), a first-time adopter may choose to deem the cumulative translation differences of foreign operations to be zero as of the date of transition to IFRS. The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

8) Adjustment to unify reporting period

Under the USGAAP, even where the reporting periods of the subsidiaries are different from the Company's reporting period, IJ used the financial statements of the subsidiaries for consolidation purposes.

Under IFRS, the Company uses financial statements subsidiaries prepare on the unified reporting date or , for subsidiaries that have different fiscal year-ends, the Company uses additional financial information as of the same reporting date as IJ's, unless it is not practicable to do so after making every reasonable effort. As a result, amounts of each account on the consolidated statements of financial position under IFRS are different from those under the USGAAP.

9) Retained earnings

| | Date of transition April 1, 2017 |
|---|-------------------------------------|
| | Thousands of yen |
| Fair value measurement of financial assets | 1,518,486 |
| Post-employment benefits | (612,518) |
| Levies | (117,586) |
| Deferred tax assets and liabilities | (68,980) |
| Revenues from the contacts with customers | 414,174 |
| Capitalized contract costs | 228,879 |
| Exchange differences on translation of foreign operations | 352,826 |
| Adjustments to unify reporting periods | (305,675) |
| Other | 306,661 |
| Sub total | 1,716,267 |
| Adjustments for tax effect | (482,315) |
| Total | 1,233,952 |

10) Reclassification

To comply with IFRS, we reclassified some accounts on consolidated statements of financial position. Major reclassifications of consolidated statements of financial position are as follows:

- (a) Based on the presentation requirements of IFRS, we separately disclose financial assets and financial liabilities.
- (b) While we had disclosed software included in fixed tangible assets on the consolidated balance sheets in accordance with USGAAP, we disclosed all software included in intangible assets on the consolidated statements of financial position in accordance with IFRS.

Reconciliation of equity for the year ended March 31, 2018

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--------------------------------|---------------------|---------------------|---|---------------------|------|------------------------------|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Current assets | | | | | | Current assets |
| Cash and cash equivalents | 21,402,892 | — | (82,888) | 21,320,004 | | Cash and cash equivalents |
| Accounts receivable | 31,830,882 | (720) | (260,773) | 31,569,389 | | Trade receivables |
| Inventories | 1,714,547 | 61,324 | (231,002) | 1,544,869 | | Inventories |
| Prepaid expenses | 8,442,981 | (878,017) | 30,252 | 7,595,216 | 6 | Prepaid expenses |
| Deferred tax assets—current | — | — | — | — | | |
| Other current assets | 3,793,449 | (3,749,061) | 10,686 | 55,074 | | Other current assets |
| | — | 3,749,781 | 8,855 | 3,758,636 | 10 | Other financial assets |
| Total current assets | 67,184,751 | (816,693) | (524,870) | 65,843,188 | | Total current assets |

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--|--------------------|------------------|---|--------------------|------|---|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Non-current assets | | | | | | |
| Investments in equity method investees | 5,246,313 | — | — | 5,246,313 | | Investments accounted for using the equity method |
| Other investments | 11,374,442 | 103,748 | 1,406,200 | 12,884,390 | 1 | Other investments |
| Property and equipment net—net | 46,414,250 | (13,267,761) | 377,707 | 33,524,196 | | Tangible assets |
| Goodwill | 6,082,472 | — | — | 6,082,472 | | Goodwill |
| Other intangible assets—net | 2,704,668 | 14,747,613 | 310,615 | 17,762,896 | 10 | Intangible assets |
| Guarantee deposits | 3,422,443 | (3,422,443) | — | — | | |
| Deferred tax assets | 183,808 | 334,308 | (356,539) | 161,577 | 4 | Deferred tax assets |
| Net investment in sales-type leases | 1,545,293 | (1,545,293) | — | — | | Other non-current asset |
| Prepaid expense | 7,965,889 | (601,835) | 323,926 | 7,687,980 | 6 | Prepaid expenses |
| Other assets | 1,324,490 | (211,970) | — | 1,112,520 | | Other non-current asset |
| | — | 5,075,958 | (218,761) | 4,857,197 | 10 | Other financial asset |
| Total non-current assets | 86,264,068 | 1,212,325 | 1,843,148 | 89,319,541 | | Total non-current assets |
| Total assets | 153,448,819 | 395,632 | 1,318,278 | 155,162,729 | | Total assets |

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--------------------------------------|------------------|------------------|---|------------------|------|--------------------------------|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Current liabilities | | | | | | Current liabilities |
| Short-term borrowings | 9,250,000 | — | — | 9,250,000 | | Borrowings |
| Capital lease obligations | 5,655,875 | (5,655,875) | — | — | | |
| Accounts payable-trade | 14,950,920 | 1,479,377 | 100,415 | 16,530,712 | | Trade and other payable |
| Accounts payable-other | 1,448,423 | (1,448,423) | — | — | | |
| Income tax payable | 1,928,037 | (151,230) | 16,027 | 1,792,834 | | Income tax payable |
| Accrued expenses | 3,111,385 | (3,111,385) | — | — | | |
| Deferred income | 4,237,676 | 61,324 | (143,043) | 4,155,957 | 5 | Deferred income |
| Other current liabilities | 1,562,717 | 2,876,808 | 2,960 | 4,442,485 | | Other current liabilities |
| | — | 6,010,728 | (45,443) | 5,965,285 | 10 | Other financial liabilities |
| Total current liabilities | 42,145,033 | 61,324 | (69,084) | 42,137,273 | | Total current liabilities |
| Non-current liabilities | | | | | | Non-current liabilities |
| Long-term borrowings | 15,500,000 | — | — | 15,500,000 | | Borrowings |
| Capital lease obligation—non-current | 10,920,726 | (10,920,726) | — | — | | |
| Accrued retirement and pension costs | 3,724,634 | — | — | 3,724,634 | 2 | Retirement benefit liabilities |
| Deferred tax liabilities—noncurrent | 688,787 | 334,308 | 327,912 | 1,351,007 | 4 | Deferred tax liabilities |
| Deferred income—non-current | 3,952,279 | — | (203,578) | 3,748,701 | 5 | Deferred income |
| Other non-current liabilities | 2,528,803 | (1,628,198) | 14,032 | 914,637 | | Other non-current liabilities |
| | — | 11,874,953 | (46,388) | 11,828,565 | 10 | Other financial liabilities |
| | — | 673,971 | 36,709 | 710,680 | | Provisions |
| Total non-current liabilities | 37,315,229 | 334,308 | 128,687 | 37,778,224 | | Total non-current liabilities |
| Total liabilities | 79,460,262 | 395,632 | 59,603 | 79,915,497 | | Total liabilities |

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--|------------------|------------------|---|------------------|------|------------------------------|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Equity | | | | | | Equity |
| Common stock | 25,511,804 | — | — | 25,511,804 | | Share capital |
| Additional paid-in capital | 36,175,937 | — | (1) | 36,175,936 | | Share premium |
| Retained earnings | 8,404,228 | — | 1,274,593 | 9,678,821 | 9 | Retained earnings |
| Accumulated other comprehensive income | 5,074,872 | — | (15,917) | 5,058,955 | 7,8 | Other components of equity |
| Treasury stock | (1,896,784) | — | — | (1,896,784) | | Treasury shares |
| Noncontrolling interest | 718,500 | — | — | 718,500 | | Non-controlling interest |
| Total equity | 73,988,557 | — | 1,258,675 | 75,247,232 | | Total equity |
| Total liabilities and equity | 153,448,819 | — | 1,318,278 | 155,162,729 | | Total liabilities and equity |

Notes to reconciliation of equity for the year ended March 31, 2018

Major adjustments as of the date of transition are as follows:

1) Fair value measurement of financial assets

Under USGAAP, nonmarketable equity securities and certain financial assets are measured based on cost and impairment losses are recognized when issuers' financial positions deteriorate. Under IFRS, these investments are measured at FVTOCI or FVTPL.

2) Post-employment benefits

Under the USGAAP, a part of the incurred amount of actuarial gain or loss and past service costs arising from defined benefit plans and unfunded severance benefit plans that are not recognized as periodic pension costs during the year is recognized as accumulated other comprehensive income (loss), net of tax. The amount recognized in accumulated other comprehensive income (loss) will be transferred to a component of pension costs in profit or loss over a certain future period.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income on a net-of-tax basis, and past service cost is recognized in net income or loss when incurred. Actuarial gain or loss is directly transferred from other components of equity to retained earnings immediately and is not recognized as profit or loss.

3) Levies

Under the USGAAP, domestic property taxes are accounted for the fiscal year of payment. Under IFRS, liabilities and expenses are immediately recognized at the point of the event when the liabilities are incurred.

4) Deferred tax assets and liabilities

In relation to changes in temporary differences arising from adjustments of accounts in transition to IFRS, the Company recognized changes related to deferred tax assets or liabilities.

5) Revenues from the contracts with the customers

Initial setup fee received from the network services were deferred over the estimated periods of use under USGAAP. According to the adaption of IFRS, the initial setup fee, which does not give the material right related to the decision as to whether the service should be continued over the initial contract period or not to the customers, are deferred over the minimum periods of use.

6) Capitalization of contract costs

The Company's existing approach is to recognize sales commissions to agents for mobile telecommunications services contracts as expenses when incurred. As a result of applying IFRS 15, the Company will capitalize the sales commissions that would not have been incurred if the mobile telecommunications service contract had not been obtained and that are expected to be recovered, as the costs to obtain a contract.

7) Exchange differences on translation of foreign operations

Under IFRS 1, as described in (1), a first-time adopter may choose to deem the cumulative translation differences of foreign operations to be zero as of the date of transition to IFRS. The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

8) Adjustment to unify reporting period

Under the USGAAP, even where the reporting periods of the subsidiaries are different from the Company's reporting period, IJ used the financial statements of the subsidiaries for consolidation purposes.

Under IFRS, the Company uses financial statements subsidiaries prepare on the unified reporting date or , for subsidiaries that have different fiscal year-ends, the Company uses additional financial information as of the same reporting date as IJ's, unless it is not practicable to do so after making every reasonable effort. As a result, amounts of each account on the consolidated statements of financial position under IFRS are different from those under the USGAAP.

9) Retained earnings

| | March 31, 2018 |
|---|------------------|
| | Thousands of yen |
| Fair value measurement of financial assets | 1,464,636 |
| Post-employment benefits | (563,080) |
| Levies | (122,346) |
| Deferred tax assets and liabilities | (116,493) |
| Revenues from the contracts with the customers | 410,238 |
| Capitalized contract costs | 196,705 |
| Exchange differences on translation of foreign operations | 363,259 |
| Adjustments to unify reporting periods | (273,478) |
| Other | 374,936 |
| Sub total | 1,734,377 |
| Adjustment for tax effect | (459,784) |
| Total | 1,274,593 |

10) Reclassification

To comply with IFRS, we reclassified some accounts on the consolidated statements of financial position. Major reclassifications on the consolidated statements of financial position are as follows:

(a) Based on the presentation requirements of IFRS, we separately disclose financial assets and financial liabilities.

(b) While we had disclosed software included in fixed tangible assets on the consolidated balance sheets in accordance with USGAAP, we disclosed all software included in intangible assets on the consolidated statements of financial position in accordance with IFRS.

Reconciliation of profit or loss, and other comprehensive income for the year ended March 31, 2018

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|---|---------------------|---------------------|---|---------------------|------|---|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Revenues: | | | | | | |
| Network services: | | | | | | |
| Internet connectivity service (enterprise) | 27,943,656 | (27,943,656) | — | — | | |
| Internet connectivity service (consumer) | 24,761,487 | (24,761,487) | — | — | | |
| WAN services | 29,295,097 | (29,295,097) | — | — | | |
| Outsourcing services | 26,118,657 | (26,118,657) | — | — | | |
| | — | 108,118,897 | (35,239) | 108,083,658 | | Network services |
| System integration: | | | | | | |
| System construction | 22,527,433 | (22,527,433) | — | — | | |
| System operation and maintenance | 37,903,235 | (37,903,235) | — | — | | |
| | — | 63,901,068 | 217,911 | 64,118,979 | | System integration |
| Equipment sales | 3,470,400 | (3,470,400) | — | — | | |
| ATM operation business | 4,030,684 | — | — | 4,030,684 | | ATM operation business |
| Total revenues | 176,050,649 | — | 182,672 | 176,233,321 | 1 | Revenues |
| Cost and expenses: | | | | | | |
| Cost of network services | (88,697,639) | — | 140,155 | (88,557,484) | | Cost of sales Cost of network services |
| Cost of system integration | (53,612,063) | (3,142,262) | (187,364) | (56,941,689) | | Cost of system integration |
| Cost of equipment sales | (3,142,262) | 3,142,262 | — | — | | |
| Cost of ATM operation business | (2,365,403) | — | — | (2,365,403) | | Cost of ATM operation business |
| Total costs | (147,817,367) | — | (47,209) | (147,864,576) | 1 | Total cost of sales |
| | — | — | — | 28,368,745 | | Gross profit |
| Sales and marketing | (12,688,046) | 12,688,046 | — | — | | |
| General and administrative | (8,295,583) | 8,295,583 | — | — | | |
| Research and development | (487,451) | 487,451 | — | — | | |
| Total costs and expenses | (169,288,447) | — | — | — | | |
| | — | (21,413,121) | (60,379) | (21,473,500) | | Selling, general and administrative expense |
| | — | 53,427 | 7,958 | 61,385 | | Other operating income |
| | — | (184,448) | (2,565) | (187,013) | | Other operating expenses |
| Operating income | 6,762,202 | (73,062) | 80,477 | 6,769,617 | | Operating profit |

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|--|---------------------|---------------------|---|---------------------|------|---|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Other income (expenses) | | | | | | |
| Dividend income | 242,576 | (242,576) | — | — | | |
| Interest income | 30,527 | (30,527) | — | — | | |
| Interest expense | (375,202) | 375,202 | — | — | | |
| Foreign exchange gain (loss),net | (15,863) | 15,863 | — | — | | |
| Net gain on sales of other investments | 1,068,303 | — | (1,068,303) | — | | |
| Net gain on other investments | (109,840) | — | 109,840 | — | | |
| Other-net | 237,420 | (237,420) | — | — | | |
| Other income-net | 1,077,921 | — | — | — | | |
| | — | 714,821 | (307,563) | 407,258 | 2 | Finance income |
| | — | (559,984) | 120,649 | (439,335) | 2 | Finance expenses |
| | — | 134,656 | — | 134,656 | | Share of profit of investments accounted for using the equity method |
| Income from operations before income tax expense and equity in net income of equity method investees | 7,840,123 | 96,973 | (1,064,900) | 6,872,196 | | Profit before tax |
| Income tax expense | (2,695,839) | 37,683 | 378,874 | (2,279,282) | | Income tax expense |
| Equity in net income of equity method investees | 134,656 | (134,656) | — | — | | |
| Net income | 5,278,940 | — | (686,026) | 4,592,914 | | Profit for the year |
| Less: Net income attributable to noncontrolling interests | (169,991) | — | — | (169,991) | | Profit for the year attributable to non- controlling interest |
| Net income attributable to Internet Initiative Japan Inc. | 5,108,949 | — | (686,026) | 4,422,923 | | Profit for the year attributable to owners of the parent |

| Presentation under USGAAP | USGAAP | Reclassification | Recognition and measurement differences | IFRS | Note | Presentations under IFRS |
|---|------------------|------------------|---|------------------|------|--|
| | Thousands of yen | Thousands of yen | Thousands of yen | Thousands of yen | | |
| Net income | 5,278,940 | — | (686,026) | 4,592,914 | | Profit for the year |
| Other comprehensive income, net of tax | | | | | | Other comprehensive income, net of tax |
| | | | | | | Items that will not be reclassified to profit or loss |
| Unrealized holding gain on securities | 2,542,210 | (918) | 661,945 | 3,203,237 | | Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income |
| Defined benefit pension plans | 33,866 | — | 46,562 | 80,428 | | Remeasurement of defined benefit plans |
| | 2,576,076 | (918) | 708,507 | 3,283,665 | | Total items that will not be reclassified to profit or loss |
| | | | | | | Items that may be reclassified subsequently to profit or loss |
| Foreign currency translation adjustments | (904) | (6,493) | (58,459) | (65,856) | | Exchange differences on translation of foreign operations |
| | — | 918 | — | 918 | | Financial assets measured at fair value through other comprehensive income |
| | — | 6,493 | — | 6,493 | | Share of other comprehensive income of investments accounted for using equity method |
| | (904) | 918 | (58,459) | (58,445) | | Total items that may be reclassified subsequently to profit or loss |
| | 2,575,172 | — | 650,048 | 3,225,220 | | Total other comprehensive income-net of tax |
| Total comprehensive income | 7,854,112 | — | (35,978) | 7,818,134 | | Comprehensive income for the year |
| Less: Comprehensive income attributable to noncontrolling interests | (169,991) | — | — | (169,991) | | Non-controlling interest |
| Comprehensive income attributable to Internet Initiative Japan Inc. | 7,684,121 | — | (35,978) | 7,648,143 | | Comprehensive income attributable to owner of the parent |

Notes to reconciliation of profit or loss, and other comprehensive income for the year ended March 31, 2018

Major adjustments as are as follows:

i) Reclassification of revenue and cost of sales

Under US GAAP, equipment sales revenue of ¥3,470,400 thousand and costs of equipment sales of ¥3,142,262 thousand were shown separately. Under IFRS, they are included in system integration revenues and cost of system integration sales, respectively.

ii) Fair value measurement of financial assets

Under USGAAP, nonmarketable equity securities are measured based on cost and impairment losses are recognized when issuers' financial positions deteriorate. Under IFRS, these investments are measured at FVTOCI.

Under US GAAP, ¥1,068,303 thousand, which is recorded as gain or loss on sales of other investments, is transferred to retained earnings through other comprehensive income.